

**RURAL CREDIT GUARANTEE FOUNDATION**

**Independent Auditor's Report and  
Financial statements  
as at and for the year ended December 31, 2019**

## CONTENTS

	<b>Page</b>
<b>Independent Auditor's Report</b>	
<b>Statement of financial position as at December 31, 2019</b>	<b>4</b>
<b>Statement of income and retained funds for the year ended December 31, 2019</b>	<b>5</b>
<b>Statement of fund balances for the year ended December 31, 2019</b>	<b>6</b>
<b>Statement of cash flows for the year ended December 31, 2019</b>	<b>7</b>
<b>Notes to the financial statements</b>	<b>8 – 30</b>

## INDEPENDENT AUDITOR'S REPORT

### To the Management of Rural Credit Guarantee Foundation

#### Opinion

We have audited the financial statements of Rural Credit Guarantee Foundation ("the Foundation"), which comprise the statement of financial position as at December 31, 2019, and the statement of income and retained funds, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Foundation as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Foundation in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants ("IESBA Code") and with the ethical requirements that are relevant to our audit of the financial statements in Albania, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of matter

We draw attention to Note 25 in the financial statements describing management's evaluation of the actual or potential impact of the effects of the COVID-19 coronavirus on the Foundation. Our opinion is not modified in respect of this matter.

#### Other Information

Management is responsible for the Other Information. Other Information comprises the information provided in the Performance Activity Report, prepared by the Management in accordance with Article 22 of the Law. No. 25/2018 date January 19, 2019 "On accounting and financial statements", amended, but does not include the financial statements and our auditors' report thereon. The Performance Activity Report is expected to be made available after the date of this auditors' report. Our opinion on the financial statements does not cover the other information and we do not convey any conclusion that provides assurance about this information.

In relation to the audit of the financial statements, statements we have the responsibility to read other information, identified as above when they are available to us and assess whether these information have material inaccuracy with financial statements or the acknowledgement we have received during audit or otherwise, if they appear to be material misstatement. After reading of the Performance Activity Report, if we conclude that there are material misstatement, we are required to communicate the issue with those charged with governance.

## **Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Foundation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Foundation or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Foundation's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Foundation to cease to continue as a going concern.

## Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Deloitte Audit Albania sept*

Deloitte Audit Albania Shpk  
Rr. Elbasanit, Pallati poshte Fakultetit Gjeologji - Miniera,  
Tirana, Albania  
Identification number (NUIS): L41709002H



*[Signature]*  
Enida Cara  
*Statutory Auditor*  
*Engagement Partner*

May 12, 2020  
Tirana, Albania

**RURAL CREDIT GUARANTEE FOUNDATION**  
Statement of financial position as at December 31, 2019

(Amounts in ALL)

	Note	As at December 31, 2019	As at December 31, 2018
<b>ASSETS</b>			
<b>Non - current assets</b>			
Property and equipment	7	1,698,843	647,249
Intangible assets	8	636,408	848,544
Right of Use Assets	9	17,613,702	-
Investments held to collect contractual cash flows	10	3,151,406,194	209,258,314
Term Deposit		-	103,238,904
Prepayments		1,078,728	-
<b>Total non-current assets</b>		<b>3,172,433,876</b>	<b>313,993,011</b>
<b>Current assets</b>			
Investments held to collect contractual cash flows	10	119,228,308	-
Accounts receivable	11	6,175,148	1,488,372
Other short term assets		-	119,717,400
Cash on hand and at banks	12	935,452,428	3,735,361,945
<b>Total current assets</b>		<b>1,060,855,884</b>	<b>3,856,567,717</b>
<b>TOTAL ASSETS</b>		<b>4,233,289,760</b>	<b>4,170,560,728</b>
<b>LIABILITIES AND EQUITY</b>			
<b>EQUITY</b>			
Fund balance		4,113,448,116	494,716,400
Retained funds		(41,842,229)	(14,466,860)
Net income / (expenditure) of the year		8,768,069	(27,375,368)
<b>Total equity</b>		<b>4,080,373,956</b>	<b>452,874,172</b>
<b>Non – current liabilities</b>			
Deferred revenue	13	71,141,358	3,686,258,392
Lease liability	14	15,227,585	-
<b>Total non-current liabilities</b>		<b>86,368,943</b>	<b>3,686,258,392</b>
<b>Current liabilities</b>			
Deferred revenue	13	4,236,775	546,687
Lease liability	14	2,282,272	-
Provision fund for financial guarantees	21	58,820,953	30,349,246
Other liabilities	15	1,206,860	532,231
<b>Total current liabilities</b>		<b>66,546,860</b>	<b>31,428,164</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>4,233,289,760</b>	<b>4,170,560,728</b>

These financial statements of the Foundation as at and for the year ended December 31, 2019 were approved by the Management of Rural Credit Guarantee Foundation on May 11, 2020, and signed on its behalf by:

  
Mr. Bajram Korsita  
Executive Director



  
Ms. Besjana Lika  
Finance and Administration Officer

The statement of financial position has to be read in conjunction with the notes set out in pages 8 to 30, which are forming part of these financial statements.

**RURAL CREDIT GUARANTEE FOUNDATION**

Statement of income and retained funds for the year ended December 31, 2019

*(Amounts in ALL)*

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
Income from general activity	16	8,165,836	6,248,278
Income from donation	17	249,690	329,945
Other financial income	18	108,531,597	11,643,128
<b>Total of operating income</b>		<b>116,947,123</b>	<b>18,221,350</b>
Staff Costs	21	(9,503,780)	(8,970,410)
Depreciation and amortization	7, 8	(1,951,206)	(472,349)
Other operating expenses	20	(23,868,473)	(3,969,928)
Impairment charge on financial guarantees	21	(28,471,707)	(17,098,325)
Impairment charge on financial instruments	10	(19,764,063)	-
<b>Total expenses</b>		<b>(83,559,229)</b>	<b>(30,511,012)</b>
<b>Operating income / (loss)</b>		<b>33,342,110</b>	<b>(23,932,790)</b>
Financial expense		(275,364)	-
Net losses from foreign exchange translations	22	(24,344,461)	(15,085,705)
<b>Net financial expense</b>		<b>(24,619,825)</b>	<b>(15,085,705)</b>
<b>Net expenditure</b>		<b>8,768,069</b>	<b>(27,375,368)</b>
Other comprehensive income / (expense)		-	-
<b>Total Comprehensive income / (expenditure) for the year</b>		<b>8,768,069</b>	<b>(27,375,368)</b>

The statement of income and retained funds has to be read in conjunction with the notes set out in pages 8 to 30, which are forming part of these financial statements.

**RURAL CREDIT GUARANTEE FOUNDATION**

Statement of fund balance as at December 31, 2019

*(Amounts in ALL)*

	<b>Fund balance</b>	<b>Retained fund / (losses)</b>	<b>Total</b>
<b>Balance at January 1, 2018</b>	<u>494,716,400</u>	<u>(14,466,860)</u>	<u>480,247,620</u>
Contribution from founder	-	-	-
Net expenditure for the year	-	(27,375,368)	(27,375,368)
<b>Balance at December 31, 2018</b>	<u>494,716,400</u>	<u>(41,842,230)</u>	<u>452,874,170</u>
Contribution from founder	3,618,731,716	-	3,618,731,716
Comprehensive income for the year	-	8,768,069	8,768,069
<b>Total Comprehensive income for the year</b>	<u>-</u>	<u>8,768,069</u>	<u>8,768,069</u>
<b>Balance at December 31, 2019</b>	<u>4,113,448,116</u>	<u>(33,074,160)</u>	<u>4,080,373,956</u>

The statement of changes in fund balance has to be read in conjunction with the notes set out in pages 8 to 30, which are forming part of these financial statements.



## RURAL CREDIT GUARANTEE FOUNDATION

Statement of cash flow for the year ended December 31, 2019

(Amounts in ALL)

	Note	For the year ended December 31, 2019	For the year ended December 31, 2018
<b>Cash flows from operating activities</b>			
Net income / (expenditure) for the year		8,768,069	(27,375,368)
<i>Adjustments for:</i>			
Depreciation and amortization	8,9	1,951,206	472,349
Release of deferred revenue		(2,158,830)	(2,945,104)
Provision expense	10,21	48,235,770	17,098,325
Exchange rate differences		296,338	15,085,705
Interest Expense		275,364	
Interest income		(108,531,597)	(11,643,128)
<b>Operating loss before changes in working capital</b>		<b>(51,163,681)</b>	<b>(9,307,220)</b>
<i>Changes in working capital:</i>			
Increase in accounts receivable		(4,686,778)	(391,385)
Decrease in restricted cash to guarantees		119,717,400	79,707,600
Decrease in deferred revenue		10,937,713	(665,881)
Increase in other liabilities		674,629	72,818
Increase in term deposits		-	(2,298,304)
Interest paid		(23,746,413)	-
Interest received		89,286,910	12,416,481
<b>Net cash flows (used in) / from operating activities</b>		<b>141,019,779</b>	<b>79,534,109</b>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets		(1,312,855)	-
Investment in treasury bills		(119,228,308)	-
Investment in treasury bonds		(2,918,126,104)	-
Investment in term deposit		(812,187,231)	-
<b>Cash used in investing activities</b>		<b>(3,850,854,499)</b>	-
<b>Cash flow from financing activities</b>			
Grants received		-	3,609,450,702
Repayment of lease		(1,571,653)	-
Contribution from founder		3,618,731,716	-
Grand Capitalization		(3,622,364,658)	-
<b>Cash generated from financing activities</b>		<b>(5,204,595)</b>	-
<b>Net (decrease) / increase in cash and cash equivalents</b>		<b>(3,715,039,314)</b>	<b>3,609,450,702</b>
Cash and cash equivalents at the beginning of the period		3,735,361,945	46,377,133
Exchange rate effect on cash and cash equivalent		(296,338)	
<b>Cash and cash equivalents at the end of the period</b>	12.1	<b>20,026,292</b>	<b>3,735,361,945</b>

The statement of cash flows has to be read in conjunction with the notes set out in pages 8 to 30, which are forming part of these financial statements.

## **RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

---

*(Amounts in ALL, unless otherwise stated)*

### **1. INTRODUCTION**

Rural Credit Guarantee Foundation (the “Foundation”) is a non-governmental nonprofit organization, established by GFA Consulting Group GMBH, a German based Foundation, as the implementer of the grant fund. The Foundation was registered with the registration number L52004452B, at the Judicial District Court of Tirana on July 8, 2015.

Rural Credit Guarantee Foundation was established pursuant to the provisions of Law No. 7850 dated June 29, 1994 “On the Civil Code of the Republic of Albania” and Law No. 8788 dated Jun 5, 2001 “On non-for-profit Organizations”.

The objective of the Foundation is to encourage banks and non-bank financial institutions to provide financial services to micro, small and medium agro and rural businesses on a sustained basis to enable them to grow and become more competitive and to create new jobs. The Foundation collaborates with banks and non-bank financial institutions (“NBFI”s) to offer partial guarantees for loans extended to micro, small and medium businesses in the agro-sector specifically and in rural areas in general and to enhance their agro-finance credit technology, developing special agro-products and procedures.

The highest level of governance is the Board of Directors as follows:

John P. Khoury – Chairman

Bahrije Dibra – Member; and

Lauresha Grezda – Member.

The Authorized Representative of the Foundation is the Executive Director, Mr. Bajram Korsita.

On December 31, 2019, the Foundation had 3 employees (December 31, 2018: 3).

### **2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

#### **2.1 Basis of preparation**

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) that were issued by the International Accounting Standards Board. This is the first set of the Company’s annual financial statements in which IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 6.

These financial statements are presented in Albanian ALL (“Lek”), which is the Foundation’s functional and presentation currency.

#### **2.2 Adoption of new and revised standards**

##### ***Standards and Interpretations effective in the current year***

The following new standard and amendments to the existing standards issued by the International Accounting Standards Board (IASB) are effective for the current reporting year:

- **IFRS 16 “Leases”** (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IFRS 9 “Financial Instruments”** - Prepayment Features with Negative Compensation (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to IAS 19 “Employee Benefits”** - Plan Amendment, Curtailment or Settlement (effective for annual periods beginning on or after 1 January 2019),

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

---

*(Amounts in ALL, unless otherwise stated)*

### 2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

#### 2.2 Adoption of new and revised standards (continued)

##### *Standards and Interpretations effective in the current year (continued)*

- **Amendments to IAS 28 “Investments in Associates and Joint Ventures”** - Long-term Interests in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2019),
- **Amendments to various standards due to “Improvements to IFRSs (cycle 2015-2017)”** resulting from the annual improvement project of IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) primarily with a view to removing inconsistencies and clarifying wording (effective for annual periods beginning on or after 1 January 2019),
- **IFRIC 23 “Uncertainty over Income Tax Treatments”** (effective for annual periods beginning on or after 1 January 2019).

The adoption of these new standards, amendments to the existing standards and interpretation has not led to any material changes in the Foundation’s financial statements.

#### 2.3 Standards and Interpretations in issue, not yet adopted

At the date of authorization of these financial statements, the following new standards, amendments to existing standards and new interpretation were in issue, but not yet effective:

- **IFRS 17 “Insurance Contracts”** (effective for annual periods beginning on or after 1 January 2021),
- **Amendments to IFRS 3 “Business Combinations”** - Definition of a Business (effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period),
- **Amendments to IFRS 9 “Financial Instruments”, IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures”** - Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to IAS 1 “Presentation of Financial Statements” and IAS 8 “Accounting Policies, Changes in Accounting Estimates and Errors”** - Definition of Material (effective for annual periods beginning on or after 1 January 2020),
- **Amendments to References to the Conceptual Framework in IFRS Standards** (effective for annual periods beginning on or after 1 January 2020).

The Foundation has elected not to adopt these new standards, amendments to existing standards and new interpretation in advance of their effective dates.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)*

### 3. USE OF ESTIMATES AND JUDGMENTS

The preparation of the financial statements in accordance with IFRS requires for the management body to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected. Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are included in Notes 6.

#### *Sensitive analysis*

Management has considered a standard scenario that include increase or decrease of 10% in the probability of default (PD) and expected credit loss (ECL). The sensitivity analyse of Foundation' possible losses as a result of increase or decrease of credit loss indicators is presented in the table below:

	<b>PD and ECL</b>	
	<b>+10%</b>	<b>-10%</b>
Impairment As at December 31, 2019 for financial assets	2,047,665	(2,047,665)
Impairment As at December 31, 2019 for financial liabilities	5,683,674	(5,683,674)
	<b>PD and ECL</b>	
	<b>+10%</b>	<b>-10%</b>
Impairment As at December 31, 2018 for financial assets	-	-
Impairment As at December 31, 2018 for financial liabilities	4,151,973	(4,151,973)

### 4. GOING CONCERN

Financial Statements of the Foundation have been prepared based on the going concern principle, which is the assumption that the Foundation will remain in business for the foreseeable future based on its objectives for issuance of financial guarantees. Based on the approved budget, the Foundation plans to increase its operational activity and positive results is foreseen in the coming year.

As disclosed in Note 25 below, the rapid development of the Covid-19 virus and its social and economic impact in Albania and globally may result in assumptions and estimates requiring revisions which may lead to material adjustments to the carrying value of assets and liabilities within the next financial year. In particular management expects the assumptions and estimates used in determining the Impairment of Financial Assets and Financial Guarantees with their carrying value, might be affected. At this stage management is not able to reliably estimate the impact as events are unfolding day-by-day. The longer term impact may also affect issuance of the financial guarantees, investments in securities, cash flows and, sustainability of the Foundation. As at April 6, 2020 the Foundation's Board of Directors has approved a new product launched by the Foundation, for companies affected by the current crisis caused by Covid-19, which it intends to implement through a new window aiming to sustainably provide access to finance to MSME business activities impacted by this crisis and collateral enforced measures. The purpose is to contribute to the revival of the Albanian economy and generation or retention of employment in productive sectors through intermediation with financial instruments. The facility is a temporary one for both existing and new clients, foreseen to be available up to the end of the year with the possibility of extension, should this be deemed necessary.

Nevertheless at the date of these financial statements the Rural Credit Guarantee Foundation continues to meet its obligations as they fall due and therefore continues to apply the going concern basis of preparation.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)*

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### 5.1 Changes in accounting policies

The Foundation initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Company's financial statements.

The Foundation applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019 when applicable. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

##### *a. Definition of a lease*

Previously, the Foundation determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Foundation now assesses whether a contract is or contains a lease based on the definition of a lease.

The Foundation applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

##### *a. As a lessee*

As a lessee, the Foundation leases its office premises. The Foundation previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Foundation recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Foundation allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Foundation has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

There is no impact in retained funds due to transition to IFRS 16 since the lease agreement of its office premises is valid since June 1, 2019.

The Foundation recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below.

In ALL	1-Jun-19
Right-of-use assets – Office premises	19,081,510
Lease liabilities	19,081,510

When measuring lease liabilities for leases that were classified as operating leases, the Foundation discounted lease payments using its incremental borrowing rate at 1 June 2019. The weighted average rate applied is 3%.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)*

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 5.2 Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss. The exchange rates used for conversion of the statement of financial position items denominated in foreign currencies are as follows:

	December 31, 2019	December 31, 2018
EUR/ALL	121.77	123.42

#### 5.3 Tangible assets

Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. The gain or loss arising on the disposal or retirement of an item of tangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

Subsequent expenditure is capitalized if future economic benefits will arise from the expenditure. All other expenditure, including repair and maintenance, is recognized in the income statement as incurred.

Depreciation commences when the assets are available for use. Depreciation is charged to the profit or loss on a reducing basis using the rates below:

Category of assets	2019	2018
Furniture office and Fittings	20%	20%
Computers equipment	25%	25%
Software	25%	25%

#### 5.4 Intangible assets

Intangible assets, which entirely consist of software, are stated at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is charged using the reducing balance method. The amortization rate used for the intangible assets is 25%. The estimated useful life and amortization method are reviewed at the end of each annual reporting year, with the effect of any changes in estimate being accounted for on a prospective basis.

#### 5.5 Financial assets and financial liabilities

##### *(i) Recognition*

The Foundation initially recognizes financial receivables, deposits and investment accounts on the date at which they are originated. Regular way purchases and sales of financial assets are recognized on the trade date at which the Foundation commits to purchase or sell the asset. All other financial assets and liabilities are initially recognized on the trade date at which the Foundation becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

---

*(Amounts in ALL, unless otherwise stated)*

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 5.5 Financial assets and financial liabilities (continued)

##### *(ii) Classification*

See accounting policies 3.5; 3.6; 3.8 and 3.9.

##### *(iii) Derecognition*

The Foundation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Foundation neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset.

Any interest in transferred financial assets that qualify for de-recognition that is created or retained by the Foundation is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of the consideration received and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

The Foundation may enter into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example repurchase transactions.

In transactions in which the Foundation neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Foundation continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

The Foundation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

##### *(iv) Offsetting*

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Foundation has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Foundation's trading activity.

##### *(v) Amortized cost measurement*

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

---

*(Amounts in ALL, unless otherwise stated)*

### 5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### 5.5 Financial assets and financial liabilities (continued)

##### *(vi) Fair value measurement*

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Foundation has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Foundation measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Foundation uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received.

If the Foundation determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Foundation measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

##### *(vii) Identification and measurement of impairment*

Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. There was no impairment of non-financial assets during the year ended December 31, 2018.

#### 5.6 Cash and cash equivalents

Cash and cash equivalents include cash in hand and balance with Foundations.



## **RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

---

*(Amounts in ALL, unless otherwise stated)*

### **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **5.7 Investments held to collect contractual cash flows**

Investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, adding incremental direct transaction costs. Foundation's financial assets are classified as held to collect because considering their business model they are held in order to collect contractual cash flows; and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

#### **5.8 Fund Balance**

Fund Balance consists of the fair value of monetary considerations contributed by the founder.

#### **5.9 Deferred revenues**

Deferred revenues represents grants received from GFA, Ministry of Agriculture and KFW. They are initially recorded as deferred revenues.

The grant is recognized as income over the period necessary to match them with the related costs, for which they are intended to compensate, on a systematic basis.

#### **5.10 Accounts and other payables**

Accounts and other payables are initially recognized at fair value and subsequently at their amortized cost, using the effective interest method.

#### **5.11 Financial guarantee contracts**

Financial guarantee contracts are contracts that require the issuer to make payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the term of a debt instrument. Such financial guarantees are given to banks and NFBI's on behalf of micro, small and medium businesses in the agro-sector.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- the amount of the loss allowance (calculated in accordance with IFRS 9 requirements on expected credit loss model); and
- the amount initially recognised less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15

#### **5.12 Provision for guarantees**

The Foundation provides guarantees for customers through banking institutions on 50/50 risk sharing basis and with maximum ceiling EUR 500,000 or equivalent in ALL 60,885,000 and guarantees the commercial borrowings of micro financing institutions from local banks under separate guarantees. A provision on financial guarantee contracts is recognized when a specified debtor fails to make payments when due, in accordance with the term of a debt instrument.

The Foundation assesses on a forward-looking basis the expected credit loss associated with the exposure arising from financial guarantee contracts. The Foundation recognizes a loss allowance for such losses at each reporting date.

## **RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

---

*(Amounts in ALL, unless otherwise stated)*

### **5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **5.13 Grants income**

A grant is recognized in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Foundation will comply with the conditions attached to it. Grants that compensate the Foundation for expenses incurred are recognized as revenue in the profit and loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Foundation for the cost of an asset are recognized in the profit and loss as revenue on a systematic basis over the useful life of the asset.

Management estimates that grants received are related to operational cost of the Foundation and did not cover provision and foreign exchange effect.

#### **5.14 Income from loan upfront fee**

Upfront fee of loans is recognized as revenues on a time proportion basis over the commitment period. The exemption may be only in a case of a specific lending arrangement will be entered into.

#### **5.15 Interest income from loan guarantees**

The income from loan guarantees interest is recognized on time proportion basis that takes into account the effective interest rate method.

#### **5.16 Operating expenses**

Operating expenses are recognized in the profit or loss upon utilization of the service.

#### **5.17 Employee Benefits**

Obligations for contributions to defined contribution pension plans are recognized as an expense in the Statement of profit or loss and other comprehensive income when they are due. The Foundation makes only compulsory social security contributions that provide pension benefits for employees upon retirement. The local authorities are responsible for providing the legally set minimum threshold for pensions in Albania under a defined contribution pension plan.

On January 12, 2018, the Foundation signed an agreement with Sigal Uniq Group Austria related with the membership in the voluntary pension fund, where the Foundation contributes together with its employees for voluntary social contributions. On November 1, 2019, the Foundation signed a contract with Sigal Uniq Group Austria for Private Health Insurance for the employees, where the Foundation pays an annual insurance premium. The Private Health Insurance policy reimburses the medical expenses under a special list of benefits and an annual maximum limit with the coverage zone: private hospitals in Albania and Europe.

#### **5.18 Income tax expense**

Rural Credit Guarantee Foundation was found as a non-profit organization and therefore, under the prevailing provisions of Albania on non-profit organization, it is exempt from tax on profit. However, the Foundation will pay income tax on its investments earnings but not on operational income.

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***6. FINANCIAL RISK MANAGEMENT****6.1 Credit risk**

Credit risk is the risk of financial loss to the Foundation if a customer or counterparty to financial instruments fails to meet its contractual obligations, and arises principally from the Foundation's deposits with banks and cash and cash equivalents.

The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable Foundations.

The Foundation's maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position, as stated in the following table (amounts in ALL):

<i>Classes of financial assets- carrying amounts:</i>	<b>As at December 31, 2019</b>	<b>As at December 31, 2018</b>
Cash on hand and at banks	20,026,292	3,855,079,345
Term deposits – BKT	793,534,613	-
Term deposits – Fibank	60,885,000	-
Term deposit - Union Bank	60,885,000	-
Term deposit – Credins Bank	-	100,000,000
Investments held to collect contractual cash flows	3,270,634,502	209,258,314
<b>Total</b>	<b>4,205,965,407</b>	<b>4,167,576,563</b>

The table below presents credit risk exposure by counterparty (country) and related delinquency or impairment, if any:

<b>Investment held to collect contractual cash flows</b>	<b>Government of Albania</b>	<b>Total</b>
<i>As of December 31, 2019</i>		
Neither past due nor impaired	-	-
Not past due but impaired as per requirements of IFRS 9	3,270,634,502	3,270,634,502
Impairment	(19,764,063)	(19,764,063)
<b>Total</b>	<b>3,250,870,439</b>	<b>3,250,870,439</b>
<i>As of December 31, 2018</i>		
Neither past due nor impaired	-	-
Not past due but impaired as per requirements of IFRS 9	209,258,314	209,258,314
Impairment	-	-
<b>Total</b>	<b>209,258,314</b>	<b>209,258,314</b>
<b>Cash and Cash equivalents</b>		
	<b>Second Tier Banks</b>	<b>Total</b>
<i>As of December 31, 2019</i>		
Neither past due nor impaired	20,026,292	20,026,292
Not past due but impaired as per requirements of IFRS 9	-	-
<b>Total</b>	<b>20,026,292</b>	<b>20,026,292</b>
<i>As of December 31, 2018</i>		
Neither past due nor impaired	3,855,079,345	3,855,079,345
Not past due but impaired as per requirements of IFRS 9	-	-
<b>Total</b>	<b>3,855,079,345</b>	<b>3,855,079,345</b>

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***6 FINANCIAL RISK MANAGEMENT (CONTINUED)****6.1 Credit risk (continued)**

<b>Term Deposits</b>	<b>Second Tier Banks</b>	<b>Total</b>
<i>As of December 31, 2019</i>		
Neither past due nor impaired	915,304,613	915,304,613
Not past due but impaired as per requirements of IFRS 9	-	-
<b>Total</b>	<b>915,304,613</b>	<b>915,304,613</b>
<i>As of December 31, 2018</i>		
Neither past due nor impaired	100,000,000	100,000,000
Not past due but impaired as per requirements of IFRS 9	-	-
<b>Total</b>	<b>100,000,000</b>	<b>100,000,000</b>

The Foundation uses credit ratings published from international ratings agencies for assessment of probabilities of default of financial assets and liabilities as detailed below:

<b>Rating according to Moody's for 2019</b>	<b>Institution</b>	<b>Probability of default</b>
B+	Government of Albania	1.06%
B+	Bank of Albania	1.06%
No rating published	Credins Bank	-
No rating published	National Commercial Bank	-

<b>Rating according to Moddy's 2018</b>	<b>Institution</b>	<b>Probability of default</b>
B+	Government of Albania	0.69%
B+	Bank of Albania	0.69%
No rating published	Credins Bank	-
No rating published	National Commercial Bank	-

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***6 FINANCIAL RISK MANAGEMENT (CONTINUED)****6.2 Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and availability of funds necessary to meet the Foundation's obligations when they come due.

The following tables present the contractual cash flows of financial liabilities and financial assets of the Foundation based on the maturity as at December 31, 2019 and December 31, 2018.

<b>December 31, 2019</b>	<b>Carrying Amounts</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-10 years</b>
<b>Financial assets</b>				
Cash and cash equivalents	20,026,292	20,026,292	-	-
Short Term Deposit	915,426,135	915,426,135	-	-
Accounts receivable	6,175,148	6,175,148	-	-
Investments held to collect contractual cash flows	3,270,634,502	-	225,347,672	3,045,286,830
	<b>4,212,262,077</b>	<b>941,627,575</b>	<b>225,347,672</b>	<b>3,045,286,830</b>
<b>Financial liabilities</b>				
Other liabilities	1,206,860	1,206,860	-	-
Lease Liability	17,409,857	-	2,282,272	15,227,585
Contingent liabilities	1,421,014,125	-	1,421,014,125	-
	<b>1,439,630,842</b>	<b>1,206,860</b>	<b>1,423,296,397</b>	<b>15,227,585</b>
<b>Liquidity gap</b>	<b>2,772,631,235</b>	<b>940,420,715</b>	<b>(1,197,948,725)</b>	<b>3,030,059,245</b>

Liquidity requirements to support calls under financial guarantees are considerably less than the amount of the commitment disclosed in the above maturity analysis, because the Foundation does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to utilize financial guarantees as included in the above maturity table from 3 to 12 months does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

<b>December 31, 2018</b>	<b>Carrying Amounts</b>	<b>Up to 3 months</b>	<b>3-12 months</b>	<b>1-10 years</b>
<b>Financial assets</b>				
Cash and cash equivalents	3,855,079,345	3,735,361,945	119,717,400	-
Deposit	103,238,904	-	-	103,238,904
Accounts receivable	1,488,371	1,488,372	-	-
Investments held to collect contractual cash flows	209,258,314	-	-	209,258,314
	<b>4,169,064,934</b>	<b>3,736,850,317</b>	<b>119,717,400</b>	<b>312,497,218</b>
<b>Financial liabilities</b>				
Other liabilities	532,231	532,231	-	-
Contingent liabilities	459,618,055	-	459,618,055	-
	<b>460,150,286</b>	<b>532,231</b>	<b>459,618,055</b>	<b>-</b>

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)*

<b>Liquidity gap</b>	<b>3,708,914,648</b>	<b>3,736,318,086</b>	<b>(339,900,655)</b>	<b>312,497,218</b>
----------------------	----------------------	----------------------	----------------------	--------------------

**7 PROPERTY AND EQUIPMENT**

Property and equipment as at December 31, 2018 and December 31, 2019 is composed as follows:

	<b>Furniture office and Fittings</b>	<b>Computers equipment</b>	<b>Total</b>
<i>Cost</i>			
<b>As at January 1, 2018</b>	<b>629,538</b>	<b>700,078</b>	<b>1,329,616</b>
Additions	-	-	-
<b>As at December 31, 2018</b>	<b>629,538</b>	<b>700,078</b>	<b>1,329,616</b>
Additions	607,495	705,360	1,322,855
<b>As at December 31, 2019</b>	<b>1,247,033</b>	<b>1,405,438</b>	<b>2,652,471</b>
<i>Accumulated Depreciation</i>			
<b>As at December 31, 2017</b>	<b>(236,018)</b>	<b>(256,847)</b>	<b>(492,866)</b>
Depreciation for the year	(78,703)	(110,798)	(189,501)
<b>As at December 31, 2018</b>	<b>(314,721)</b>	<b>(367,645)</b>	<b>(682,366)</b>
Charge of the year	(134,036)	(137,225)	(271,251)
<b>As at December 31, 2019</b>	<b>(448,757)</b>	<b>(504,870)</b>	<b>(953,617)</b>
<i>Net book value</i>			
<b>As at December 31, 2018</b>	<b>314,817</b>	<b>332,432</b>	<b>647,250</b>
<b>As at December 31, 2019</b>	<b>798,276</b>	<b>900,577</b>	<b>1,698,853</b>

**8 INTANGIBLE ASSETS**

Intangible assets is comprised as follows:

	<b>Software</b>	<b>Total</b>
<i>Cost</i>		
<b>As at January 1, 2018</b>	<b>1,616,200</b>	<b>1,616,200</b>
Additions	-	-
<b>As at December 31, 2018</b>	<b>1,616,200</b>	<b>1,616,200</b>
Additions	-	-
<b>As at December 31, 2019</b>	<b>1,616,200</b>	<b>1,616,200</b>
<i>Accumulated Depreciation</i>		
<b>As at January 1, 2018</b>	<b>(484,808)</b>	<b>(484,808)</b>
Charge of the year	(282,848)	(282,848)
<b>As at December 31, 2018</b>	<b>(767,656)</b>	<b>(767,656)</b>
Charge of the year	(212,136)	(212,136)
<b>As at December 31, 2019</b>	<b>(979,792)</b>	<b>(979,792)</b>
<i>Net book value</i>		
<b>As at December 31, 2018</b>	<b>848,544</b>	<b>848,544</b>
<b>As at December 31, 2019</b>	<b>636,408</b>	<b>636,408</b>

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

(Amounts in ALL, unless otherwise stated)

### 9 RIGHT OF USE ASSETS

The Right of Use Assets as at December 31, 2019 is detailed as follows:

(a) See Note 7 (h).

	<u>Buildings</u>	<u>Total</u>
<i>Cost</i>		
Balance at 1 January 2019 on initial application of IFRS 16	-	-
Depreciation charge for the year	-	-
Additions to right-of-use assets	19,081,510	<b>19,081,510</b>
Depreciation charge for the year	(1,467,809)	<b>(1,467,809)</b>
Derecognition of right-of-use assets	-	-
<b>At 31 December 2019</b>	<b>17,613,701</b>	<b>17,613,701</b>

(b) Amounts recognized in profit or loss are presented below:

<b>Amounts recognised in profit or loss and other comprehensive income 2019 – Leases under IFRS 16</b>	<u>In ALL</u>
Depreciation charge on right-of-use assets (see (a))	1,467,809
Interest expense on lease liabilities	275,364

### 10 INVESTMENTS HELD TO COLLECT CONTRACTUAL CASH FLOWS

#### 10.1 Treasury Bills

As at December 31, 2019 and December 31, 2018 the investments on treasury bills are as follows:

	<u>As at December 31, 2019</u>	<u>As at December 31, 2018</u>
Treasury bills	120,000,000	-
Discount of Treasury bills	(1,652,328)	-
Accrued interest	880,636	-
<b>Total</b>	<b>119,228,308</b>	-

During 2019, the Foundation purchased a new T-Bill with discount and a nominal value of ALL 120,000,000, fix-rated coupon - 1.4%, to be matured in one year, on June 18, 2020.

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***10 INVESTMENTS HELD TO COLLECT CONTRACTUAL CASH FLOWS (CONTINUED)****10.2 Treasury Bonds**

	As at December 31, 2019	As at December 31, 2018
Treasury Bonds	3,130,350,000	207,000,000
Discount – Bonds	(9,241,805)	-
Premium - Bonds	2,431,559	
Premium - Eurobonds	11,025,825	-
Accrued interest - Bonds	22,107,062	2,258,314
Accrued interest - Eurobonds	14,497,616	-
<b>Total</b>	<b>3,171,170,257</b>	<b>209,258,314</b>
Allowance for impairment	(19,764,063)	-
<b>Total carrying amount</b>	<b>3,151,406,194</b>	<b>209,258,314</b>

During 2019 the entity purchased new investments in T-Bonds in ALL and Euro. Treasury Bonds have fix-rated coupon 5.85% to be matured in 10 years; 1.45% to be matured in 2 years and fix-rated coupon – 3.75% to be matured in 7 years and 5.53% to be matured in 10 years. The two other Bond investments are in EUR (Eurobond), with nominal value of EUR 10,000,000, and EUR 5,000,000, both with fix-rated coupon – 3.5% to be matured in 7 years. For the purchased Treasury Bonds, the Foundation paid an interest of ALL 22,107,062 related to the interest generated from the issue date of the securities until the purchase date. The Foundation will receive the total interest in the next coupon date which will include the amount paid and the interest income from the purchase date until the coupon date.

**2019****Stages according to Expected Loss on Financial Assets**

	Stage 1	Stage 2	Stage 3	Total
Investments	3,270,634,502	-	-	3,270,634,502
<b>Gross amount</b>	<b>3,270,634,502</b>	<b>-</b>		<b>3,270,634,502</b>
Impairment	(19,764,063)	-		(19,764,063)
<b>Net amount</b>	<b>3,250,870,439</b>			<b>3,250,870,439</b>

**2018****Stages according to Expected Loss on Financial Assets**

	Stage 1	Stage 2	Stage 3	Total
Investments	209,258,314	-	-	209,258,314
<b>Gross amount</b>	<b>209,258,314</b>	<b>-</b>		<b>209,258,314</b>
Impairment	-	-		-
<b>Net amount</b>	<b>209,258,314</b>			<b>209,258,314</b>



## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

(Amounts in ALL, unless otherwise stated)

### 11 ACCOUNTS RECEIVABLE

Account receivable as at December 31, 2019 and December 31, 2018 is comprised as follows:

	As at December 31, 2019	As at December 31, 2018
<b>Current</b>		
Receivable from MFIs	1,120,181	525,419
Receivable from Banks	4,725,848	908,179
Prepayments	329,120	54,774
<b>Subtotal</b>	<b>6,175,148</b>	<b>1,488,372</b>
<b>Non-current</b>		
Prepayments	1,078,728	-
<b>Subtotal</b>	<b>1,078,728</b>	-
<b>Total</b>	<b>7,253,876</b>	<b>1,488,372</b>

Accounts receivable as of December 31, 2019 represent the amounts not paid by Banks and MFIs related to interest and upfront fee for the second quarter.

### 12 CASH AND CASH EQUIVALENT

#### 12.1 Cash on hand and at banks

Cash on hand and at banks is comprised as follows:

	As at December 31, 2019	As at December 31, 2018
Cash at bank in ALL	19,049,120	36,455,322
Cash at bank in EUR	968,562	3,698,903,153
Cash on hand	8,610	3,470
<b>Total</b>	<b>20,026,292</b>	<b>3,735,361,945</b>
Restricted cash at bank	-	119,717,400
<b>Total Cash on Hand and at Banks</b>	<b>20,026,292</b>	<b>3,855,079,345</b>

As at December 31, 2019 cash at bank includes current accounts held at BKT, Credins bank, Union Bank and Fibank.

The Foundation has used the restricted cash in investing treasury bills, bonds, Eurobonds and short-term deposits as described in note 6 and 8. As at December 31, 2019, the restricted cash is nil (December 31, 2018: EUR 970,000 or equivalent in ALL 119,717,400, with of exchange rate ALL/EUR 123.42).

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

(Amounts in ALL, unless otherwise stated)

### 12 CASH AND CASH EQUIVALENT (CONTINUED)

#### 12.2 Short term deposits

	As at December 31, 2019	As at December 31, 2018
Short-term deposit	915,304,613	100,000,000
Accrued Interest	121,522	3,238,904
<b>Total</b>	<b>915,426,135</b>	<b>103,238,904</b>

During 2019, RCGF entered into four short-term deposit agreements with BKT equivalent to ALL 793,534,613 with the following details:

- ALL 40,000,000, 1 month deposit with interest rate 0.3% and maturity date as at January 15, 2020;
- EUR 3,000,000, 1 month deposit with interest rate 0.05% and maturity date as at January 8, 2020, reinvested each month from June 7, 2019;
- EUR 2,948,179, 1 month deposit with interest rate 0.05% and maturity date as at January 16, 2020;
- EUR 240,000, 1 month deposit with interest rate 0.05% and maturity date as at January 15, 2020.

Also, RCGF entered into two other short-term deposit agreements with Fibank and Union Bank from EUR 500,000 each, respectively with interest rate 0.2%, maturity date as at January 20, 2020 and with interest rate 0.1%, maturity date as at January 20, 2020.

### 13 DEFERRED REVENUE

Deferred revenue includes two streams as follows:

From grants - A grant is recognized in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Foundation will comply with the conditions attached to it. As at May 20, 2019, the Board of Directors decided to increase the fund balance from the Grants received from KfW for an amount equivalent to ALL 3,618,731,716.

From upfront fees – Upfront fee is a one-time fee calculated on the guaranteed loan amount and is received when loan is disbursed.

As at December 31, 2019 and 2018 deferred revenues were detailed as follows:

	As at December 31, 2019	As at December 31, 2018
<b>Current portion</b>		
Upfront fee	3,987,085	216,742
Grants from GFA	242,630	320,532
Grants from GFA Albania Branch	7,060	9,413
	<b>4,236,775</b>	<b>546,687</b>
<b>Non-current portion</b>		
Upfront fee	7,842,053	424,994
Grants from GFA	519,312	684,040
Grants from GFA Albania Branch	14,715	19,422
Long term grants from Ministry of Agriculture	62,765,278	62,765,278
Grants from KfW	-	3,622,364,658
	<b>71,141,358</b>	<b>3,686,258,392</b>
<b>Total</b>	<b>75,378,133</b>	<b>3,686,805,079</b>

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***14 LEASE LIABILITY**

The terms and conditions of outstanding lease liabilities as of December 31, 2019 are as follows.

	Currency	Incremental borrowing rate	Year of maturity	Minimum monthly lease payments	
				In OCY	In LCY (‘000)
Lease liabilities	EUR	3.00%	2019-2026	1,900	231,363

Below are presented undiscounted cash outflows for the repayments of lease liabilities as per year of maturity:

	<b>31 December 2019</b>
- Less than one year	-
- Between one and two years	-
- Between two and three years	-
- Between three and four years	-
- Between four and five years	-
- More than five years	19,434,492
	<b>19,434,492</b>
Less future interest expense	(1,924,635)
<b>Finance lease liability</b>	<b>17,509,857</b>

**15 OTHER LIABILITIES**

Other liabilities are composed as follows:

	<b>As at December 31, 2019</b>	<b>As at December 31, 2018</b>
Personal income tax	98,002	95,170
Social and health insurance	81,226	75,780
Local creditors / suppliers	187,621	10,060
Withholding tax	706	12,676
Accrued expense	-	338,545
<b>Total</b>	<b>1,206,860</b>	<b>532,231</b>

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)*

### 16 INCOME FROM GENERAL ACTIVITY

Income from general activity represent income from upfront fees and interest, which are earned by the main activity of the Foundation – offering guarantees to Partner Financial Institutions. The balance is composed of:

	For the period ended December 31, 2019	For the period ended December 31, 2018
Interest income from Banks	2,919,948	2,151,688
Interest income from MFIs	3,087,022	1,489,406
Income from upfront fee – MFIs	1,492,453	1,485,150
Income from upfront fee – Banks	666,377	1,122,034
<b>Total</b>	<b>8,165,836</b>	<b>6,248,278</b>

The Foundation earns 0.75% yearly interest from Micro Financing Institutions on the average daily outstanding balance. Interest income from Banks is calculated as a percentage (specified in the contract) on the average quarterly outstanding balance.

Upfront fee is a one-time fee calculated on the guaranteed loan amount and is received when loan is disbursed. Upfront fees are at first registered as deferred revenue and then recognized in income or expenditure over the maturity of loan guaranteed.

### 17 INCOME FROM DONATION

Income from donations is composed as follows:

	For the period ended December 31, 2019	For the period ended December 31, 2018
Income from donations - Depreciation of assets granted from GFA	249,690	329,945
<b>Total</b>	<b>249,690</b>	<b>329,945</b>

### 18 OTHER FINANCIAL INCOME

	For the year ended December 31, 2019	For the year ended December 31, 2018
Interest income from treasury bonds	106,640,610	9,339,000
Interest income from deposit	1,890,988	2,304,128
<b>Total</b>	<b>108,531,597</b>	<b>11,643,128</b>

Other financial income is mainly composed by interest income from investment in treasury bills, treasury bonds and bank deposit.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

(Amounts in ALL, unless otherwise stated)

### 19 STAFF COSTS

Staff costs is composed as follows:

	For the period ended December 31, 2019	For the period ended December 31, 2018
Gross Salaries	8,520,060	8,050,000
Social and health insurance	557,654	517,910
Pension fund contributions	426,006	402,500
<b>Total</b>	<b>9,503,780</b>	<b>8,970,410</b>

### 20 OTHER OPERATING EXPENSES

Other operating expenses is composed as follows:

	For the period ended December 31, 2019	For the period ended December 31, 2018
Bank charges for investments custody	9,325,000	50,000
Claim pay-out	7,036,125	-
Withholding tax	4,334,970	1,549,315
Audit	1,379,950	418,065
Office maintenance and supplies	499,466	411,259
Insurance expense	283,617	195,127
Rent	253,700	780,371
Tax consultancy	182,655	-
Transport expense	130,891	78,272
Post and communication	122,327	127,256
Bank charges	83,688	27,945
Utilities	79,829	87,800
Health insurance	45,510	-
Local Taxes	15,000	15,000
Other expense	95,745	229,518
<b>Total</b>	<b>23,868,473</b>	<b>3,969,928</b>

The Bank charges for investment custody are related to the expenses charged by the Custody Bank, 0.5% commission on the income from Eurobonds. Withholding tax represent 15% of the interest income gained from the investments in securities.

As at December 31, 2019, the Claim pay-out ALL 7,036,125 (2018: nil) represent the Foundation payments for 2 defaulted clients of Credins Bank and 4 defaulted clients of BKT with more than 180 days past due, covering 50% of the outstanding exposure as per contractual agreement with the bank. The Default guarantees for the year ended December 31, 2019 have been provisioned on prior year at amount ALL 3,858,818, see Note 22.

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***21 PROVISION FUND FOR FINANCIAL GUARANTEES**

The movement in the provision liability for guarantees to banks and micro-financing institutions is as follows:

	<b>2019</b>	<b>2018</b>
<b>As at January 1</b>	<b>30,349,246</b>	<b>13,250,921</b>
Default financial guarantees	(3,858,818)	-
Reverse provision of the year	(5,523,705)	(1,011,410)
Provision expense of the year	37,854,230	18,109,735
<b>Provision expense of the year, net</b>	<b>28,471,707</b>	<b>17,098,325</b>
<b>In the end of the year December 31,</b>	<b>58,820,953</b>	<b>30,349,246</b>

For the year ended December 31, 2019, there is an increase in provision expense, which is directly related to the impairment amount calculated by BKT and Credins bank and the percentage of non-performing loans during the last three years from NOA, FedInvest and Fondi Besa.

**22 LOSSES FROM FOREIGN EXCHANGE TRANSLATIONS, NET**

The balance is composed as follows:

	<b>For the year ended December 31, 2019</b>	<b>For the year ended December 31, 2018</b>
Gain from foreign exchange rate	18,231,069	8,950,377
Loss from foreign exchange rate	(42,575,531)	(24,036,082)
<b>Losses from foreign exchange translations, net</b>	<b>(24,344,461)</b>	<b>(15,085,705)</b>

Other interest income is mainly composed by interest income from investment in treasury bonds and bank deposit.

## RURAL CREDIT GUARANTEE FOUNDATION

Notes to the financial statements for the year ended December 31, 2019

(Amounts in ALL, unless otherwise stated)

### 23 CONTINGENCIES AND COMMITMENTS

As at December 31, 2019 and 2018, the Foundation had no other legal claims against it that were not both minor and in the ordinary course of business. .

Contingencies as at December 31, 2019 include the following:

	As at December 31, 2019		As at December 31, 2018	
	Outstanding Balance	Disbursed amount guaranteed	Outstanding Balance	Disbursed amount guaranteed
<b>Contingent liabilities</b>				
Guarantees to NOA	435,000,000	435,000,000	152,354,347	154,275,000
Guarantees to FedInvest	331,825,000	375,800,000	149,839,266	154,275,000
Guarantees to Unifin	0	23,000,000	-	-
Guarantees to Fondi Besa	405,495,000	405,495,000	-	-
Guarantees to Credins Bank's customers	154,701,216	227,878,907	61,254,863	99,292,650
Guarantees to BKT's customers	93,992,909	164,452,521	96,169,579	122,822,521
<b>Total</b>	<b>1,421,014,125</b>	<b>1,631,626,427</b>	<b>459,618,055</b>	<b>530,665,171</b>

The Foundation provides guarantees for customers through banking institutions on 50/50 risk sharing basis and with maximum ceiling of Eur 500,000 for Regular Window and Eur 250,000 for Green Window and guarantees the commercial borrowings of micro financing institutions from local banks under separate guarantees.

Outstanding balance is related with the outstanding balance of the loans guaranteed by the Foundation. Disbursed amount guaranteed is related with the guaranteed amount of the disbursed loans, which is 50% of the total amount disbursed for banking institutions, and 100% of the amounts disbursed for micro financing institutions.

### 24 RELATED PARTY TRANSACTIONS

A party is related to an entity if, directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with the entity, the party has an interest in the entity that gives it significant influence over the entity, the party has joint control over the entity, the party is an associate or the party is a member of the key management personnel of the entity or its parent.

Transactions with related parties constitute:

	As at December 31, 2019	As at December 31, 2018
Long term grants from KFW	-	3,622,364,658
Long term grants from GFA	519,312	684,040
Long term grants from GFA Albania Branch	14,715	19,422

**RURAL CREDIT GUARANTEE FOUNDATION**

Notes to the financial statements for the year ended December 31, 2019

*(Amounts in ALL, unless otherwise stated)***24 RELATED PARTY TRANSACTIONS (CONTINUED)**

	<b>For the period ended December 31, 2019</b>	<b>For the period ended December 31, 2018</b>
<i>Income</i>		
Incomes from donations - Depreciation of assets	249,690	329,945
<b>Total</b>	<b>249,690</b>	<b>329,945</b>

**Key management compensation**

	<b>For the period ended December 31, 2019</b>	<b>For the period ended December 31, 2018</b>
<i>Income</i>		
Key management compensation	4,575,720	4,310,000
<b>Total</b>	<b>4,575,720</b>	<b>4,310,000</b>

**25 EVENTS AFTER THE REPORTING PERIOD**

In December 2019, an outbreak of a new strain of coronavirus, COVID-19, emerged in Wuhan, China. Within weeks, despite efforts to contain the virus in China that included widespread shutdowns of cities and businesses, the number of those infected grew significantly, and beyond China's borders including Albania. On 11 March 2020, the World Health Organization announced a pandemic situation due to the global emergency caused by the outbreak of COVID 19. The coronavirus outbreak is still evolving and its effects remain unknown. For further details please refer to Note 4 "Going Concern".

As at February 4, 2020 the Foundation signed an investment contract with Union Bank with regard to one 25-month deposit, with a value of ALL 60,850,000, with annual interest rate of 2.25% and maturity date as at March 4, 2020.

Moreover, on March 20, 2020, the Foundation signed another deposit contract with Union Bank, for a one year deposit, with a value of ALL 60,990,000, with annual interest rate of 2.1% and maturity date on March 20, 2021. Also during the period January-April 2020, the following investments in treasury bonds were made:

- On February 10, 2020, an investment of ALL 60,300,000 in the primary market in 2-year Albanian Government bonds through Fibank, with coupon rate 2.25%, yield 2.2%, with issue date on January 10, 2020 and maturity date on January 10, 2022.
- On March 13, 2020, an investment of ALL 61,000,000 in the primary market in 7-year Albanian Government bonds through Fibank, with coupon rate 4.08%, with maturity date on March 13, 2027.
- On March 13, 2020, an investment of ALL 123,400,000 in the primary market in 7-year Albanian Government bonds through OTP bank, with coupon rate 4.08%, with maturity date on March 13, 2027.
- On April 21, 2020, an investment of ALL 107,000,000 in the primary market in 2-year Albanian Government bonds through BKT, with coupon rate 2.55%, with maturity date on April 21, 2022.

Regarding Credit Guarantees:

- On January 23, 2020, RCGF signed a Partnership Agreement with OTP Bank for implementation of the Rural Credit Guarantee Facility, as with other financial institutions.

There are no other events after the reporting date that requires adjustment and disclosure in the financial statements.